MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/ 2020

BAC2664 – AUDITING

(All sections / groups)

21 OCTOBER 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages excluding cover page with **5** questions only.

2. Attempt ALL questions. The distribution of the marks for each question is given.

3. Write all your answers in the answer booklet provided.

QUESTION 1

Butter & Bread Sdn Bhd (BBSB) is a manufacturer and supplier of butter and bread to the hotel industry in Malacca. The company's financial year end is on 31 October. As the audit senior, you recently had a discussion with the accountant regarding the sales and collection cycle. During the discussion, the accountant highlighted the following:

The company's sales are principally to the hotels and supermarkets in Malacca. BBSB has about 150 accounts receivables. Since the accounting system is fully computerised, each account receivable is assigned with a unique four numeric characters as the account code.

BBSB accepts order through telephone, post and e-mail. When an order is received, the data of the customer's order is immediately keyed into the system and the details are printed out. The printed customer's order is then serially numbered and designed for multiple uses.

The customer's order is first used as a basis for releasing goods from store to the shipping department and acts as a shipping document. Once the price is informed by the sales department, the customer's order becomes an invoice. The accounting department will ensure that all the details and authorisations are in order before updating the sales transaction file and accounts receivable master file.

BBSB only accepts payment by cheque. The treasury department is responsible for depositing the cheques into the company's bank. The recording is done by the accounting department and the particulars for the receipt are obtained from the remittance advice that accompanied the cheque. The accounts executive compares the remittance advice with the list of cheques that were prepared by the mailing department. Once the details are entered into the system, the cash receipt transaction file and accounts receivable master file are updated.

Summary totals are produced monthly by the accounting department for updating the accounts in the general ledger such as sales, cash and accounts receivable. An aged analysis is prepared monthly and balances exceeding the credit terms are followed-up.

Required:

(i) Identify SIX (6) strengths of the control procedures of Butter & Bread Sdn Bhd.

(6 marks)

(ii) Identify SIX (6) possible misstatements that could occur if the above internal controls in (a) above are not established.

(9 marks)

(iii) Discuss any TWO (2) assertions that relate to internal control for sales and collection cycle.

(5 marks)

(Total: 20 marks)

Continued.....

QUESTION 2

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and establish criteria and communicating results to interested parties.

Required:

(i) Briefly discuss the relationship between Accounting and Auditing.

(3 marks)

(ii) Explain THREE (3) reasons for the growing demand for auditing.

(6 marks)

(iii) Distinguish between the audit of financial statements and compliance audits.

(6 marks)

(iv) Identify any FIVE (5) components of the financial statements that are required to be audited and examined by the auditor.

(5 marks)

(Total: 20 marks)

QUESTION 3

a) Auditing is the accumulation and evaluation of evidence about information to determine the degree of correspondence between the information and established criteria.

Required:

(i) Evaluating audit evidence includes determining the reliability of evidence obtained whether it can be believable or worthy of trust. Discuss the characteristics of reliable evidence.

(12 marks)

(ii) Securities Commission (SC) of Malaysia requires all company auditors to maintain proper documentation including audit evidence. Describe the type of audit files and provide two (2) examples of information often included in each audit file.

(3 marks)

Continued.....

b) Confirmation is a receipt of a direct written response from a third party verifying the accuracy of the information that was requested by the auditor. Indicate the source of the confirmation for the following items:

(i) Accounts payable
(ii) Inventory held in a public warehouse
(iii) Insurance coverage amount
(iv) Litigation amount arises from fines due to incompliance to environmental act
(v) List of active company's directors as of year-end.

(5 marks)
(Total: 20 marks)

QUESTION 4

The audit report is the final step in the entire audit process.

a) Distinguish between an unqualified report with an emphasis of matter and a qualified report. Give two (2) circumstances when the emphasis of matter would be used in an audit report.

(5 marks)

b) Materiality is an essential consideration in determining the appropriate type of report for a given set of circumstances. In applying this definition, there are different levels of materiality used by an auditor to determine the decision.

Discuss the levels of materiality with an example of the situation for each level.

(9 marks)

c) For each of the following independent situations, indicate the reason and the type of audit report you would issue.

i. Your client, Amanah Bhd, has incurred substantial losses in recent years and is unable to repay the various outstanding bank loans. The company's inability to continue as a going concern is in doubt.

ii. During your audit of Aerospace Enterprise, the client refuses to allow you to confirm the accounts receivable balance because they are concerned about complaints from the customers. You are unable to satisfy yourself on the accounts receivable balance with other audit procedures.

iii. The management of Health & Fit Bhd, a public listed company, has decided not to disclose a major related party transaction because the management believes that such information is confidential and sensitive.

(6 marks)

(Total: 20 marks)

Continued.....

QUESTION 5

a) The responsibility for adopting sound accounting policies, maintaining adequate internal control and making a fair presentation in financial statements rests with the management. On the other hand, auditor's responsibility is to check the financial statement using the relevant auditing standard by identifying the material misstatements.

Required:

(i) Discuss the reasons why financial statement auditors are responsible for reasonable but not absolute level of assurance.

(6 marks)

(ii) Identify the two (2) types of fraud and provide two (2) examples for each.

(5 marks)

b) Balance-related audit objectives are similar to transaction-related audit objectives as they follow management assertions. However, balance-related have more audit objectives than transaction-related.

Required:

Describe the general and specific balance-related audit objectives on the *inventory cycle* based on the following management assertions:

(i) Existence
(ii) Completeness
(iii) Accuracy
(iv) Cut-off
(v) Realizable value
(vi) Rights and obligation

Please use the format shown below:

Management assertions	General balance-related audit objectives	Specific balance-related audit objectives
(i) Existence		

(9 marks)

(Total: 20 marks)

End of Paper.